

ORIGINAL

OPEN MEETING



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MEMORANDUM
RECEIVED

Arizona Corporation Commission

DOCKETED

DEC - 2 2009

TO: THE COMMISSION

FROM: Utilities Division

DATE: December 2, 2009

2009 DEC -2 P 4: 50

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY

RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF ITS RENEWABLE ENERGY STANDARD AND TARIFF IMPLEMENTATION PLAN FOR 2010 (DOCKET NO. E-01345A-09-0338)

Background

On July 1, 2009, Arizona Public Service Company ("APS" or "Company") filed its application for approval of its 2010 Implementation Plan pursuant to the Renewable Energy Standard and Tariff ("REST") Rules. On October 16, 2009, APS filed a revised Plan which would adjust certain strategies and programs and include provisions required by Commission Decision No. 71275.

The APS REST Implementation Plan 2010 to 2014

The APS REST Implementation Plan 2010 to 2014 is a five-year plan describing how APS intends to comply with the REST requirements. In a separate document, Attachment B of the APS application, APS has filed its Distributed Energy Administration Plan ("DEAP") describing how APS intends to meet the annual Distributed Renewable Energy Requirement.

APS estimates that the cost for full compliance with the REST Rules would total \$86.7 million in 2010. This is an increase of about 10.6 % over 2009's \$78.4 million. Budget details are given in Table 1 below.

APS is requesting increases in its adjustor rate to collect \$80.7 million; \$6.0 million is collected in base rates to reach the total of \$86.7 million. REST adjustor rates would increase about 9 percent and are shown below on Table 2.

Table 1
APS REST Budgets
(\$000)

Line	RENEWABLE	2009	2010	Pct Change
1	Energy Purchase	10,400	8,500	-18%
2	Administration	800	1,300	63%
3	Implementation	800	1,100	38%
4	Green Power Revenue Credit	-600	-400	-33%

5	Total Renewable	11,400	10,500	-8%
6				
7	<u>DISTRIBUTED ENERGY</u>			
8	Contracts	3,500	16,600	374%
9	Incentives:			
10	Up-Front - Residential	49,300	44,100	-11%
11	Up-Front - Non-Residential	1,300	2,000	54%
12	PBI - Non-Residential	1,100		
13	Customer Self-directed	0		
14	Total Incentives	51,700	46,100	-11%
15				
16	Public Assistance Program	300	500	67%
17	Administration	1,200	1,600	33%
18	Implementation	2,800	3,100	11%
19	IT	600	1,500	150%
20	Marketing	5,400	4,800	-11%
21				
22	Total Distributed Energy	65,500	74,200	13%
23				
24	<u>R&D, COMMERCIALIZATION,</u>			
25	<u>INTEGRATION</u>	1,500	2,000	33%
26				
27	Total REST budget	78,400	86,700	10.6%

** Included in "Contracts" (line 9) in 2010.

Table 2
REST Adjustor Rates

			2009 Plan Decision No.70654	2010 Proposed	Percent Change
All kWh			\$0.0079370	\$0.0086620	9.13%
<u>Monthly Surcharge Limits</u>					
Residential			\$3.17	\$3.46	9.15%
Non-Residential			\$117.93	\$128.70	9.13%
Large Non-Residential			\$353.78	\$386.10	9.14%

Table 3 presents a variety of typical Customer types with the monthly RES surcharge amounts they would pay.

Table 3
Customer Impact of Proposed REST Adjustor Rates

	<u>Customer Types and Costs</u>	<u>Monthly kWh</u>	<u>2009</u>	<u>2010</u>	<u>Pct Change</u>
1	Residence	>= 400	\$3.17	\$3.46	9.15%
2	Dentist Office	2,000	\$15.87	\$17.32	9.13%
3	Hairstylist	3,900	\$30.95	\$33.78	9.13%
4	Department Store	170,000	\$117.93	\$128.70	9.13%
5	Retail Video Store	14,400	\$114.29	\$124.73	9.13%
6	Large Hotel	1,067,100	\$117.93	\$128.70	9.13%
7	Large Building Supply/Hardware	346,500	\$117.93	\$128.70	9.13%
8	Hotel/Motel	27,960	\$117.93	\$128.70	9.13%
9	Fast Food	60,160	\$117.93	\$128.70	9.13%
10	Large High Rise Office Bldg	1,476,100	\$117.93	\$128.70	9.13%
11	Supermarket	233,600	\$117.93	\$128.70	9.13%
12	Convenience Store	20,160	\$117.93	\$128.70	9.13%
13	Hospital (< 3 MW)	1,509,600	\$117.93	\$128.70	9.13%
14	Hospital (> 3 MW)	2,700,000	\$353.78	\$386.10	9.14%
15	Copper Mine	72,000,000	\$353.78	\$386.10	9.14%
16	Shopping Mall (>3MW)	1,627,100	\$353.78	\$386.10	9.14%

Renewable Generation

For year 2010, APS indicates that it would own and operate approximately 6 MW of solar capacity. In addition, APS has entered into power purchase agreements for 218 MW of wind, geothermal, and biomass/biogas renewable generation capacity, and expects 20 MW from its Small Generation Request for Proposal ("RFP"). This totals 244 MW of renewable generation as described in detail in Exhibit 3B of Attachment A in the APS application.

The expected annual MWh of generation from existing contracts and planned generation is shown in Exhibit 3A of Attachment A of the APS plan. The estimate for existing renewable generation is 756,966 MWh in 2010, plus targeted additions of 22,100 MWh. Targeted additions represent APS' efforts to procure certain geothermal, solar, and other small renewables.

Small Generation Pilot Program

To encourage smaller-sized renewable generation projects, APS instituted a one-year Small Generation Pilot Program as approved by the Commission in APS' 2009 REST Implementation Plan. This Program was meant to streamline the process of entering into an

agreement with APS by allowing smaller solar projects of 10,000 MWh/year or less, and other renewables of 35,000 MWh/year or less to avoid the formal RFP process, which can be somewhat onerous for some small system developers.

Initial assessment of the Small Generation Pilot Program suggests that it is having a favorable impact promoting small generation renewable technologies. Thirty bids from potential small generation renewables were received in 2009. APS may issue a second RFP for year 2011. APS anticipates that 20 MW of power purchase agreements of the 224 MW in 2010 will be the result of this program.

Distributed Energy

Decision No. 71275 required APS to offer proposals which could increase participation in residential Distributed Energy ("DE"). To this end, APS intends to

1. Begin a Qualified Contractors Program to ensure quality of customer's renewable installations.
2. Utilize the AZ Sun Program to install utility-scale PV at locations throughout the service territory.
3. Establish a non-profit organization focused on increasing participation in APS' DE programs.
4. To more directly aid schools and governmental customers, APS proposes a separate Schools and Government Program.
5. Introduce a program to encourage lenders to help customers with up-front financing.
6. Offer residential customers further incentives in addition to RES up-front incentives.
7. Continue the Solar Homes program launched in April of 2009 in which homebuilders are rewarded for commitments to developing communities with renewable technologies.

Most non-residential DE projects are eligible for performance-based incentives ("PBI"). Over the term of a contract, typically ten or twenty years, PBI costs can become significant. APS is seeking approval of a lifetime non-residential PBI authorization of \$570 million. This would include the \$220 million authorization previously approved by the Commission (Docket No. E-01345A-09-0263).

Decision No. 71275 also required APS to offer proposals which could increase DE participation for governmental and schools customers. APS will offer these customers performance-based incentives for installation of qualifying non-residential RES facilities. APS

proposes annual increases of \$100 million in PBI commitments, with \$15 Million allocated specifically to schools, municipalities, and other governmental entities.

The APS Distributed Energy Administration Plan

APS proposes minor modifications to the DEAP Plan that was approved by the Commission in Decision No. 70654 (December 18, 2008).

The proposed revisions are intended to improve customer service and lead to increased customer participation and satisfaction and include:

- Simplified calculation of up-front incentive for small wind generators.
- Guidelines for design and installation of geothermal heating and cooling systems.
- Categorizing non-residential DE as Large, Medium, or Small and specifying a process for obtaining incentives.
- Reducing customer's time to execute a Credit Purchase Agreement from 60 days to 30 days.

Flagstaff Project

In Docket No. E-01345A-09-0227, APS has proposed its Flagstaff Community Power Project – a blending of two important new technologies, Distributed Energy and the “Smart” distribution system. Thus, APS would gain valuable experience as to how DE systems impact the distribution system. The Flagstaff Project would provide customers with the benefits of Solar, including pricing, with no capital investment on the customer's part. The Flagstaff project is included as part of this Implementation Plan; however, Staff is addressing the Flagstaff project in Docket No. E-01345A-09-0227.

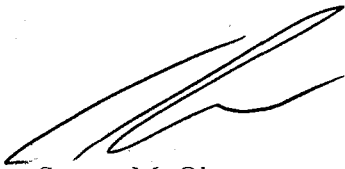
Distributed Public Assistance Program

As part of its 2009 Implementation Plan, APS began a Distributed Public Assistance Program (“DPAP”) to help meet the needs of schools, low-income, governmental, and non-profit customers who may be interested in acquiring a DE system. APS proposes a 2010 annual budget of \$500,000 which is an increase of \$200,000 over 2009 to be used for increased incentives, system installation assistance, and administrative expenses. These types of customers may have limited financial means, and may not be eligible for tax credits. APS' DPAP could result in larger incentives for low-income customers, and in some cases provide for complete installations of renewable systems.

Staff Recommendations

Because APS' plan allows it to meet the Commission-approved REST requirements in 2010, Staff recommends that APS' 2010 REST Implementation Plan be approved. This Plan cost is \$86.7 million, and continues to meet full REST requirements, consistent with the 2009 plan approved by the Commission.

Staff recommends that the RES Adjustor Rate be reset accordingly to \$0.008662 per kWh with monthly caps of \$3.46 for residential customers, \$128.70 for non-residential customers, and \$386.10 for non-residential customers with demands of 3 MW or greater.



Steven M. Olea
Director
Utilities Division

SMO:JJP:lhv\WVC

ORIGINATOR: Jeffrey Pasquinelli

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES
Chairman

3 GARY PIERCE
Commissioner

4 PAUL NEWMAN
Commissioner

5 SANDRA D. KENNEDY
Commissioner

6 BOB STUMP
Commissioner

7
8 IN THE MATTER OF ARIZONA PUBLIC
9 SERVICE COMPANY – APPLICATION
10 FOR APPROVAL OF ITS RENEWABLE
11 ENERGY STANDARD AND TARIFF
12 IMPLEMENTATION PLAN FOR 2010

DOCKET NO. E-01345A-09-0338

DECISION NO. _____

ORDER

13 Open Meeting
14 December 15 and 16, 2009
Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 1. Arizona Public Service Company (“APS” or “Company”) is certificated to provide
18 electric service as a public service corporation in the State of Arizona.

19 2. On July 1, 2009, APS filed its application for approval of its 2010 Implementation
20 Plan pursuant to the Renewable Energy Standard and Tariff (“REST”) Rules. On October 16,
21 2009, APS filed a revised Plan which would adjust certain strategies and programs and include
22 provisions required by Commission decision No. 71275.

23 The APS REST Implementation Plan 2010 to 2014

24 3. The APS REST Implementation Plan 2010 to 2014 is a five-year plan describing
25 how APS intends to comply with the REST requirements. In a separate document, Attachment B
26 of the APS application, APS has filed its Distributed Energy Administration Plan (“DEAP”)
27 describing how APS intends to meet the annual Distributed Renewable Energy Requirement.

28 ...

4. APS estimates that the cost for full compliance with the REST Rules would total \$86.7 million in 2010. This is an increase of about 10.6 percent over 2009's \$78.4 million. Budget details are given in Table 1 below.

5. APS is requesting increases in its adjustor rate to collect \$80.7 million; \$6.0 million is collected in base rates to reach the total of \$86.7 million. REST adjustor rates would increase about 9% and are shown below on Table 2.

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2 Exhibit 3B of Attachment A in the APS application.

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4 generation is shown in Exhibit 3A of Attachment A of the APS plan. The estimate for existing
5 renewable generation is 756,966 MWh in 2010, plus targeted additions of 22,100 MWh. Targeted
6 additions represent APS' efforts to procure certain geothermal, solar, and other small renewables.

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15 favorable impact promoting small generation renewable technologies. Thirty bids from potential
16 small generation renewables were received in 2009. APS may issue a second RFP for year 2011.
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23 renewable installations.
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25 the service territory.
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27 DE programs.
- 28 d) To more directly aid schools and governmental customers, APS proposes a
separate Schools and Government Program.

- e) Introduce a program to encourage lenders to help customers with up-front financing.
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Staff Recommendations

17. Because APS’ plan allows it to meet the Commission-approved REST requirements in 2010, Staff has recommended that APS’ 2010 REST Implementation Plan be approved. This Plan cost is \$86.7 million, and continues to meet full REST requirements, consistent with the 2009 plan approved by the Commission.

18. Staff has recommended that the RES Adjustor Rate be reset accordingly to \$0.008662 per kWh with monthly caps of \$3.46 for residential customers, \$128.70 for non-residential customers, and \$386.10 for non-residential customers with demands of 3 MW or greater.

...

...

CONCLUSIONS OF LAW

1. APS an Arizona public service corporation within the meaning of Article XV, Section 2 of the Arizona Constitution.

2. The Commission has jurisdiction over APS and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated December 2, 2009 concludes that it is in the public interest to approve the APS 2010 REST Implementation Plan.

ORDER

IT IS THEREFORE ORDERED that Arizona Public Service Company's 2010 REST Implementation Plan be and hereby are approved as discussed herein.

IT IS FURTHER ORDERED that Arizona Public Service Company's Renewable Energy Standard Tariff be set at the proposed levels shown in Table 2 herein.

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IT IS FURTHER ORDERED that Arizona Public Service Company file in Docket Control a revised Tariff including the updated REST rates in compliance with the Decision in this case within 15 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2009.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:JJP:lhmvWVC

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-09-0338

3 Ms. Deborah R. Scott
4 Pinnacle West Capital Corporation
400 North Fifth Street
5 Post Office Box 53999/MS 8695
6 Phoenix, Arizona 85072-3999

7 Mr. C. Webb Crockett
Fennemore Craig, PC
8 3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913

9 Mr. Steven M. Olea
10 Director, Utilities Division
11 Arizona Corporation Commission
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Phoenix, Arizona 85007

13 Ms. Janice M. Alward
14 Chief Counsel, Legal Division
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